

## Midnight News Update – Aug 24<sup>th</sup> 2017

The Cabinet approved the merger of PSU banks in principle today. The final decision on specifics of mergers will be taken by a Group of Ministers which will be constituted by the Prime Minister. The decision on merger will be predicated on two main criteria. Firstly, there will be an attempt to create a few national level banks and then there will be strong regional banks. Indian PSU banks are struggling with Gross NPAs of over 12.5% and are badly in need of capital. The move to merge banks strategically is one more step towards alleviating the problems of Indian PSU banks.

The markets on Wednesday were betting on Nandan Nilekani returning as the CEO of Infosys. The company was caught in a crisis after Vishal Sikka resigned from the post of CEO. In his letter had specifically attributed his resignation to the concerted campaign of calumny that Narayanamurthy had been carrying on against Sikka. Murthy has raised serious objections over executive compensation and the deterioration of governance standards at Infosys. The entry of Nandan Nilekani will cool frayed nerves and will be perfectly acceptable to clients, institutional investors and to the promoters.

The recent rise in bankruptcy proceedings could lead to deals worth nearly \$80 billion according to a study done by Moelis. Companies in the steel, power and construction could become takeover targets as the price also could be quite attractive from an enterprise point of view. According to Moelis, players are waiting to see the successful execution in a couple of deals after which there could be a rush of interest from companies and investment bankers. Indian banks have been struggling with \$180 billion of stressed assets and the only answer appears to be pushing through forced M&A in stressed companies.

The now famous Jackson Hole meeting of the world's top central bankers will get underway and is likely to be closely watched. Firstly, while the US has committed itself to a hawkish policy, the ECB and the Bank of Japan are still tilting towards keeping liquidity comfortable. That opens up the risk of monetary divergence across the world. Secondly, the US itself is struggling to justify

its hawkish policy at a time when inflation and growth have continued to disappoint. The biggest debate in Jackson Hole is likely to be the likely impact that any Fed taper would have on world markets and key asset classes.

Both the US dollar and the US stock market took a hit on Wednesday as Trump continued his aggressive stance on NAFTA and also kept the global markets in a state of limbo. Markets have been worried about Trump's inability to push forward key reforms on the taxation and infrastructure front. That has led to the dollar consistently weakening. Concerns over the US economy are also evident when we look at the appreciation in the value of gold and safe haven currencies like the Yen. In addition, the geopolitical uncertainty over North Korea is still around and could escalate any moment. Above all, there are concerns over valuations of US stocks. The Dollar Index, after crossing the 100 threshold has fallen back below the 100 mark and has been consistently weakening against hard currencies of late.

Overseas borrowings by Indian companies went up by 57% in the month of July 2017. External borrowings include both ECBs and FCCBs. With SEBI imposing a ban on rupee denominated bonds (RDBs), most of the fund raising had to be performed through the foreign currency route only. Out of the total of \$1.9 billion raised in July, \$1.25 billion was raised through the automatic route while the balance \$0.65 billion came through the approval route. Hindustan Petroleum, Reliance, Idea Cellular and Export Import Bank of India (EXIM) were among the major foreign currency borrowers.